

Syria: Fuelling Debate

September 10, 2007

Syria is still embroiled in a debate on whether to slash subsidies on fuel, a sensitive issue for an economy that depends heavily on state support for oil to keep its wheels turning.

Only days after Syria's oil minister flagged the government's intentions to cut state support for fuel prices, Prime Minister Mohammad Naji Ottri said that the issue was still under discussion.

Talks between all parties involved in the debate over whether to reduce or eliminate the fuel subsidy and the mechanisms for price support were continuing, Ottri said after a cabinet meeting on September 4.

The question of subsidies in the Syrian economy is a vexing one, with price support somewhat at odds with President Bashar Al Assad's declared policy of developing an open market system and easing the state out of much of the day-to-day running of business. It is also a question that the government has yet to find a firm answer to.

This year, Syria is expected to become a net importer of petroleum products, having had a surplus of \$2.5bn in its oil trade as recently as 2003, according to government figures cited in a recent International Monetary Fund report. Domestic production has dropped to around 380,000 barrels per day (bpd) from a high of 600,000 bpd a decade ago, with little sign of a return to better days.

Though Ottri's statement that fuel subsidies were still on the table, on August 27 Oil and Mineral Resources Minister Suffian Allaw appeared to have pulled the rug out from under any discussions by declaring massive new price hikes were on the way.

Speaking on Syrian television, Allaw said the price for fuel oil would rise from 14 cents a litre to 24 cents, while bottled gas tariffs would increase to around \$5, up from the present \$2.90.

According to Allaw, the problems of having to assist a growing number of Iraqi refugees and losses caused by smuggling were the main causes for the price hikes.

"The idea of gradually raising the price of petrol, heating oil and domestic gas is because of increased demand, more expensive petrol and smuggling," he said, along with what he described as "the demographic growth and the influx of Arab residents".

The minister said smuggling of subsidised fuel into neighboring countries, particularly Lebanon, Turkey and Iraq, was costing the Syrian economy hundreds of millions of dollars every year. He said smuggling to Lebanon alone cost \$240m a year in losses.

The estimated 1.5m Iraqis now living in Syria, that has a population of just over 20m people, have imposed a strain on the state as it strives to provide housing, healthcare and other basic services to its not entirely welcome guests, though it is somewhat difficult to see how this influx, large as it is, has become one of the main reasons for the 40% hike in fuel prices Allaw has said is on the way.

On August 30, Abdallah Al Dardari, Syria's deputy prime minister for economic affairs, took the same line as his cabinet colleague, saying that a graduated reduction in price support for petroleum products would begin late this year.

"The government will take the decision in the next few weeks and the subsidies will start to be removed before year's end," Al Dardari told an international news agency. "The government doesn't want to make profit on fuels, but the objective is to cover our costs in five years."

Dardari said the government has embarked on a public relations offensive to explain the increases to the public as fuel smuggling to neighboring countries was draining \$800m from the economy.

"Tightening border security will not solve the problem. We have to adopt a fundamental solution. Economic growth will become unsustainable if we continue with this subsidies regime," said Al Dardari.

By cutting fuel subsidies, Syria would save \$1.2bn a year, though some of this would be redirected to assist low-income families, he said.

Al Dardari's apparent commitment to ending fuel subsidies appears to be at odds with the budget he handed down in late July, which allocated \$7bn for price support payments, including for energy. At the time, he said subsidies were part of the government's commitment to protect the standard of living of the Syrian people.

At least in another form, this commitment remains. The government has moved to mollify the expected anger at steep price hikes by promising to give each Syrian family a \$240 handout to offset the increases and to raise public servants' salaries by up to 20%.

While this may ease some of the immediate pain, it will do little to rein in inflation, currently estimated to be running at around 9% by the state's Central Bureau of Statistics but thought to be much higher.

It remains to be seen if Ottri's pledge for more talks on the issue is an effort to pour oil on troubled waters or a signal of a back down by the government over what will be a highly unpopular move.